

# Challenges Faced by Development Partners in Supporting the Growth and Development of Commercial Enterprises in Lira District, Northern Uganda

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## Abstract

Entrepreneurship is defined as the process where an individual discovers, evaluates and exploit opportunities independently. Most countries have embraced entrepreneurship development as ways of creating employment and economic growth and development. The objective of the study was to examine the challenges faced by commercial enterprises in Lira District Northern Uganda. Using both simple random sampling procedures, a sample of 274 participants were selected for the survey. The data were analyzed using SPSS statistical package. The study recommended that development partners operating in the district should consider supporting commercial enterprises (CEs) in accessing financial support, training upcoming managers in management skills and creating a favourable environment which supports creativity and innovations.

**Keywords:** Access to Finance, Human resource capabilities, Operational environment.

## 1.0 Introduction

Today most governments are supporting entrepreneurship development as a driver to economic growth and development. Despite their significant importance and the Commercial enterprise (CE) contribution to economic growth, CEs across the world and in Uganda particular, they are still faced with numerous challenges that inhibit entrepreneurial growth. This results in high rates of business failure (Uganda has one of the lowest CEs survival rates in the world) Global Entrepreneurship Monitor (GEM), (2009). Starting and operating a business involves considerable risks and effort for entrepreneurs, particularly in view of the high failure rates. It is imperative that it is believed that a person with the perseverance and drive to become an entrepreneur will be successful no matter what hinders him or her.

## 1.1 Research problem

Over the years performance of CEs has been deteriorating and majority of them have closed down. There has been several business start-ups in the recent past, a number of them have failed to continue. There was a decline in registered business from 800,000 in 2001 to 25,000 in 2007 and noted by ( Kasekende and opondo, 2003). Despite the important role that CEs are expected to play in Ugandan, there are a number of constraints which act as barriers to the emergence and growth of a sustainable small and micro enterprise sector. UNCTAD, (2000) and Stevenson and St.Onge (2005) emphasized that the major constraints that the CE sector faces include but not limited to Access to finance, markets, government bureaucracy, technology etc. Most of the CEs are failing within the first five years (GEM 2009).

It's upon this back where the researcher would want to investigate the challenges face by CEs and propose possible solutions to these challenges.

## 1.2 Objective of the study

The study objective is therefore to examine the challenges faced by commercial enterprises in Lira District Northern Uganda.

## 2.0 Literature review

Gem (2009) states that entrepreneurs are confronted with a variety of challenges in developing and running a business, and many argue that significant barriers remain for entrepreneurs, while establishing and growing their businesses and they include:

### 2.1 Access to Finance Resources

There are various sources available for financing of CEs. However, despite various breakdowns in names of these sources, they fall into either debt or equity financing. Hindrances that affect the performance of CEs, their competitiveness and survival include limited information on financial options, inadequate and expensive supply of utilities and limited access to networks that are needed to enhance competitiveness (Hatega, 2007). CEs in Uganda are currently being faced with many serious difficulties such as shortage of capital for expansion, low

productivity and competitiveness, lack of experience in terms of marketing, and financial management. Wichman (2001) mentioned that access to capital is one of the main stumbling blocks preventing entrepreneurs from starting their own businesses in greater numbers.

Fatoki and Garwe (2010), stated that lack of capital seems to be the primary reason for business failure and is considered to be the greatest problem facing small and micro business owners Shafeek (2009) noted that without adequate financing, the business will be unable to maintain and acquire facilities, attract and retain capable staff, produce and market a product or do any necessary thing to run a successful operations. Stokes and Wilson (2006) stated that financial difficulties of CEs arise, either because of inability to raise sufficient funds to properly capitalize the business, or a mismanagement of the funds that do exist or a combination of both.

Onugu (2005) argued against non availability of capital as the prime problem of entrepreneurship development. Onwubiko (2011) noted that the availability of capital is central to the establishment and continued existence of any enterprise irrespective of the size, focus and objective. It has been observed that for an entrepreneur to start a business, he/she must have adequate funds.

The CEs in Uganda have scarcity to long term finance as a key impediment to greater investment and growth and they tend to have short term business outlook (UIA, 2008) and operate under a very difficult business condition (Menshah, 2004; Kauffmann, 2005; Ishengoma & Kappel, 2008). CEs in Uganda tend to rely on informal sources of funds such as family, friends and customer advances instead of relying on bank loans (Ruffing, 2003). Thus CEs continue to operate in the vicious cycle of inadequate financing.

## 2.2 Human Resource Capabilities

Adman, Abdullah and Ahmad (2011) reported that human resources management practices do have significant effects on bottom line performance; which indicated that management practices used in the enterprise are a significant factor influencing performance of business. Islam & Siengthai (2010) indicated that most of the core processes of human resource management; particularly recruitment and selection, performance appraisal and training and development have a significant positive impact on success of CEs. Human resources capacities form one of the most significant factors for the development of small firms. Today's firms are very much exposed to market pressure, CEs are frequently at disadvantage relative to their larger counterparts regarding their abilities to attract, retain and motivate the best human resources (Beaver and Hutchings, 2005). Besides, the numerous institutions providing training and advisory services, there is still gap in the CE sector as a whole (Kayanula & Quartey, 2000). This is because entrepreneurs cannot afford the high cost of training and advisory services while others do not see the need to upgrade their skills due to complacency. Lee (2001), human resources capacities form one of the most significant areas for the success of CEs. Chandler & McEvoy (2000), indicate that human resource capacities have a positive effect on the growth of small firms, which increase employee skills and motivation and eventually result in improving the productivity and long term sustainability of small firms. Educated workers are not only more productive, but they have more learning and innovative abilities (Batra and Tan, 2003). Those CE's which have more capable workers are likely to be more efficient (Hewitt and Wield, 1992; Lucas, 2003) Several studies such as Batra and Tan (2003), Lee (2001), and McElwee and Warren (2000) recognized low human resource capabilities as a major constraint in CE's development in developing countries. Sienghai, (2011) emphasized that management skills are necessary for CEs to survive and achieve growth. Aylin, Garango, Cocca & Bititchi (2013) states that management skills are a crucial factor for the growth of CEs and that the lack of management skills is a barrier to growth and are one of the factors that can lead to failure. Pasanen (2007) suggests that the growth pattern of small firms is associated with their managerial capacities. Human resources in CE generally are weak in terms of their knowledge and skills of market analysis, marketing and product innovation as well as business planning and financial management.

Management expertise is one of the scarce resources in CEs. Kayandula (2000) and Ramokolo and Smallwood (2008) stated that lack of managerial know how places significant constraint on CE development.

## 2.3 Operational Environment and Regulations

International Finance Corporation (IFC, 2013), found out that the top obstacles to their operations are poor investment climate, especially red tape, high tax rates and competition from the informal sector, and inadequate infrastructure, especially an insufficient or unreliable power supply. Clement & Hansen (2003) noted that an unfavorable business climate has negative effect on small firm growth. Likewise, St-Jean, Julien & Jos'ee (2008) noted that unfair competition from the informal sector, cumbersome regulations and tax rates are the main obstacles on small business growth.

CE's are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, ineffective legal system, inadequate financial system and unattractive tax regimes Kauffman, (2005). Macro-economic policies, legislations, frameworks, regulations and laws are factors that can facilitate or hinder entrepreneurship development (Clover & Darroch, 2005). Appropriate trade, labour, investment and tax policies and regulations

can give an enabling environment that encourages investment and sustainability of entrepreneurs as the new source of wealth and job creation in the economy (Henning, 2003, Ahwireng-Obeng & Piarary, 1999). On the other hand, a hostile external environment presents legal and regulatory constraints which stifle CE development and increase cost of doing business (Fin mark Trust, 2006) To succeed, sustainable CE development will require concerted efforts among the various parties concerned including commercial and rural Banks, leasing companies and equity providers, consulting and training firms, internet providers, as well as local business associations (Lucas, 2005).

Registration and legal incorporation requirements vary considerably amongst countries, and are often unnecessary complex and expensive (Abu Bakar, Mad and Abdul Latif, 2006). In addition, there are certain specific requirements or controls imposed by foreign governments (Aziz, 2000). The enabling environment is a key barrier to growth. Crime and theft ranked as the third highest obstacle to growth for business owners in the Fin scope Survey (2010).

Regional political instability such as war in Northern Uganda, political unrest/war in the Republic of South Sudan and Democratic Republic of Congo, a disintegrated regional economy and the instability of emerging markets all negatively affect the business environment, with many foreign CEs from the regions flooding into Northern Uganda and increasing competition for the local CEs (Ocici, 2010)

The high cost of settling legal claims and excessive delays in court proceedings adversely affect CEs operations. Meanwhile the absence of antitrust legislation favours larger firms, while the lack of protection for the property rights limits CEs access to foreign technologies (Kayanula and Quartey, 2000)

### **3.0 Methodology**

This section covers the research design used in the study, sample and sampling procedure applied, data collection; over view of data and the statistical analytical techniques employed.

The study was conducted based on cross section survey design. This design was chosen to ensure that the study accurately described the true nature of existing conditions at point in time.

#### **3.1 Sample and sampling procedure**

The target populations for this study were small, medium and large CEs operating in Lira municipality covering the Divisions of Adyel, Ojwina, Central and Railways respectively. These areas were chosen since the government has a lot of interest in these business categories and their growth respectively. The respondents were drawn from categories of CEs which included Metal fabricators, Leisure and hospitality, timber dealers, groceries and general merchandise dealers. Stratified random sampling was conducted to select 274 respondents. The research strategy employed both descriptive and correlations analysis. Self administered questionnaires were used to enable the respondent have adequate time to respond to the same set of questions in a predetermined order. A 5- point Likert scale ranging from 1-5 where 1 (strongly disagree), 2 (disagree), 3 (not sure), 4 (agree), 5 (Strongly agree) was used to gather data. Data collected was presented in tabular form with descriptive statistics.

#### **4.0 Results and Interpretation**

This section presents the basic characteristics of the respondents involved in the study.

**Table 1: Background characteristics of the respondents**

Total N = 274		N	Percent (%)
<b>Gender</b>	Male	137	50.0
	Female	137	50.0
<b>Marital status</b>	Married	170	62.0
	Single	77	28.1
	Cohabiting	11	4.0
	Divorced	6	2.2
	Separate	4	1.5
	Widowed	6	2.2
<b>Monthly income level</b>	Below 200000	40	14.6
	200000-300000	52	19.0
	300000-400000	53	19.3
	400000-500000	48	17.5
	Over 500000	81	29.6
<b>level of education</b>	PhD	5	1.8
	Masters Degree	13	4.7
	Post Graduate Diploma	17	6.2
	Bachelors Degree	114	41.6
	Diploma	78	28.5
	Certificate	47	17.2

Source: Primary Data 2017

The results from the survey indicated that the composition of Gender as (50.4%) were male while (49.6%) were female. Although the numbers of males were more than the distributions of females, the study indicated that there were equitable (Proportionate) participation of both men and women. This gave the researcher an opportunity to interact and discuss different views with both men and women at different levels.

Findings on marital status indicate that (62.0%) were married, while 28.1% were single. This implies that most of participants had additional roles in their families.

The researcher investigated the income levels of the respondent and the results found indicated that most of the respondents earn above 500.000 and the least category falls in the range below 200,000. The researcher also investigated the education level of the respondents and the results indicated that (41.6%) had attained a university degree and the least is PhD at 1.8%. The study indicated that majority of the respondents had basic education.

**Table 2: Rotated Component Matrix:**

The challenges commercial enterprises face	Access to finances	Human resource capabilities	Operational environmental regulations
General management	.745		
Cash flow management	.598		
Financial management	.619		
Access to finances	.771		
Creative problem solving		.518	
Technological growth and support		.623	
Human resource capabilities		.790	
Training and development of staff		.735	
Business location			.711
Operational , environmental and regulation			.761
Creativity and innovation			.551
<b>Eigen Value</b>	<b>6.418</b>	<b>1.759</b>	<b>1.118</b>
<b>Variance %</b>	<b>42.788</b>	<b>11.726</b>	<b>7.455</b>
<b>Cumulative %</b>	<b>42.788</b>	<b>54.514</b>	<b>61.969</b>

Source: Field data 2017

Of the several indicators of the challenges commercial enterprise face, access to finance is the key challenge to commercial enterprise development, and it contributes the largest load of 0.771 and the least is cash flow management 0.598. The other challenge is human resource capabilities with the largest load of 0.790 and the least is creative problem solving at 0.518. Operational, environmental and regulations has the largest load with 0.761 and the least is creativity and innovation contributing to 0.551. These statistics indicate that access to finance explain the greatest variation in commercial enterprise development (42.79%) than human resource capabilities and operational, environmental and regulation. Notwithstanding, the overall contribution of access to finance, human resource capabilities and operational, environmental and regulations explain 61.97% of the total amount of challenges in commercial enterprise development.

**Table 3: Relationships between the study variables**

	1	2	3	4
Access to finances-1	1.000			
Human resource capabilities-2	.603**	1.000		
Operational , Environment and regulations-3	.540**	.517**	1.000	
<b>Commercial Enterprise Development-4</b>	.504**	.602**	.432**	1.000

\*\*. Correlation is significant at the 0.01 level (2-tailed).

**Source: Field data 2017**

The correlation between the factors and CED ( $r=.504$ ,  $r=.602$  and  $r=.432$ ) were positive and moderate. However, Human resource capabilities ( $r=.602$ ) influences CED more than Access to finance than operational environment and regulations. Among the factors influencing CED, a better combination existed between Access to finance and Human resource capabilities, though all the combinations of the factors were moderately influenced in CED.

**Table 4: Descriptive of the study variable**

N = 274	Mean	SD
Access to finance	4.040	0.704
Human resource capabilities	3.969	0.745
Operational Environment and regulations	4.099	0.790
<b>Commercial Enterprise Development</b>	<b>3.900</b>	<b>0.834</b>

**Source: Field data 2017**

An average of (4.099) indicates that environmental regulations pose the most challenge to CEDs but with a lot of variations in the values. In addition, access to finance poses a slightly less challenge to CEDs and with less variation in the values

**Table 5: Regression Model**

	<i>Unstandardized Coefficients</i>		<i>Beta</i>	<i>t</i>	<i>Sig.</i>
	<i>B</i>	<i>Std. Error</i>			
(Constant)	.630	.259		2.435	.016
Access to finance	.218	.075	.184	2.918	.004
Human resource capabilities	.486	.069	.435	7.021	.000
Operational Environment and regulations	.113	.062	.107	1.818	.070
<b>Dependent Variable: Commercial Enterprise Development</b>					
R	.633				
R Square	.401				
Adjusted R Square	.394				
Std. Error of the Estimate	.649				
F Statistic	59.536				
Sig.	.000				

**Source: Field data 2017**

Beta coefficients ( $B_0=.218$ ,  $B_1=.486$  and  $B_2=.113$ ) indicate that human resource capabilities is the best predictor of the level of variations in CED ( $B_1=.486$ ). In addition, a ( $P<.05$ ) indicates that the model is statistically relevant in explaining the different levels of variation. ( $R^2=.0401$ ) shows that the combined factors account for 40.1% of the total variation in CED and since ( $R^2<40\%$ ) the three factors are indicated significant in the model.

## 5.0 Discussion

The study indicated a number of factors affecting the growth of CE. The findings is in line with Fatoki a& Garwe (2010) who noted that lack of capital seems to be the primary reasons for business failure and is

considered to be the greatest problems facing small and micro business owners. Chandler & McEvoy (2000) also noted that human resource capabilities have a positive effect on the growth of small firms, which increase employees' skills and motivation and eventually result in improving the productivity and long term sustainability of small firms. Clement & Hansen (2003) noted that an unfavorable business climate has negative effect on small firm growth. The finding indicated that access to finance was the highest predictor of challenges facing CEs compared to human resource capabilities and operational environment and regulations

## 6.0 Conclusion

It can be concluded that commercial enterprise development in lira has been impeded by the inadequacy of access to finances which manifests itself in low creativity and innovations, and poor general management, is evidence enough to explain why commercial enterprise development in the district is still low.

## 7.0 Recommendation

Development partners in the district should consider provision of support to access finances, training potential upcoming managers and provision of good policies and setting favorable environment to support creativity and innovations.

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